

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Table of Contents

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Overview .....	2
Introduction .....	2
Use or Lose .....	2
Who is Eligible .....	3
Administrative Fees .....	3
Central Benefits Administration .....	4
Agency Benefits Administration .....	4
Central Payroll Administration .....	4
Agency Payroll and Fiscal Administration .....	4
Deduction Changes .....	5
Mid-Year FRA Deduction Changes .....	5
Family Status Change .....	5
Deduction Refund Policy .....	6
Administrative Error .....	6
Tax Consequences of Flexible Reimbursement.....	6
Deduction Refund Guidelines .....	6
Special Considerations.....	6
Leave Without Pay (LWOP).....	7
Employee Payment .....	7
Deposit Certificate (DC) Method .....	7
Interagency Transfer Invoice (IAT) Method .....	7
CIPPS Data Entry .....	8
CIPPS Deduction Numbers.....	8
H0ZDC.....	9
Internal Control.....	10
Internal Control.....	10
Records Retention.....	10
Time Period.....	10
Contacts .....	11
DOA Contacts.....	11
Subject Cross References.....	11
References.....	11

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Overview

### Introduction

The Office of Health Benefits in the Department of Human Resource Management (DHRM) administers the *Commonwealth of Virginia Flexible Benefits Program*. The program allows employees to contribute to a Medical Reimbursement Account (MRA) and/or a Dependent Care Reimbursement Account (DCRA) through payroll deduction on a pre-tax basis. Employees are then required to submit a reimbursement request to the Flexible Benefits third party administrator.

The plan qualifies as a cafeteria plan authorized by Section 125 of the Internal Revenue Code. The Internal Revenue Service establishes the minimum and maximum deferral amounts.

Beginning April 14, 2003, Flexible Reimbursement Accounts are subject to the requirements of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA requires health plans to notify plan participants and beneficiaries about its policies and practices to protect the confidentiality of their health information. For more information, visit the websites of the Commonwealth's third part administrator, FBMC (<http://www.fbmc-benefits.com/VaProviderNetwork/index.asp>) or the Department of Human Resources ([www.dhrm.virginia.gov](http://www.dhrm.virginia.gov)). You may contact FBMC at 800-533-2738 or DHRM at 804-225-2131.

### Use or Lose

As with all cafeteria plan contributions and benefits, participation in the Flexible Benefits Program constitutes a salary reduction agreement. Thus, the contributions are withheld from earnings for transfer into a reimbursement account. Participants must estimate their health care and/or dependent care assistance expenses before they are incurred. As expenses are incurred, reimbursements from this account(s) are requested from the third party vendor. If participants overestimate their expenses, contributions remaining in the reimbursement account(s) at the end of the year are forfeited.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Overview, Continued

<b>Who is Eligible</b>	<p>All employees who are eligible to participate in the State Health Benefits Program are eligible to participate in the Dependent Care Reimbursement Account. The initial election period is within 31 days following the date of employment.</p> <p>All employees who have been eligible for the State Health Benefit Program for 6 continuous months are eligible to participate in the Medical Expense Reimbursement Account. Enrollment in the State Health Benefits Program is not required. A new employee wishing to participate in the Medical Expense plan must enroll within the 31 day period prior to completing the six months eligibility period for the State Health Benefits Program.</p>
<b>Administrative Fees</b>	<p>Since January 2002 administrative fees have been suspended for both medical and dependent care flexible reimbursement accounts.</p>
<b>Annual Enrollment</b>	<p>In accordance with guidelines established by DHRM, employees must enroll annually, even if the total contribution for the new plan year remains the same. After the open enrollment period (usually Mid-May to Mid-June), DHRM provides agencies with a report of each participant's name, Social Security Number, the amount to be deducted from each pay, and the annual election amounts for each plan.</p> <p>During Fiscal Year-end processing, DOA runs a Mass Transaction update that:</p> <ul style="list-style-type: none"> <li>• Changes the deduction frequency on all flex deductions to "0"</li> <li>• Changes the deduction amounts to zero for flex deductions.</li> </ul> <p>Detailed information is provided annually in the Fiscal Year-end Payroll Bulletin.</p>

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Overview, Continued

### Central Benefits Administration

The Office of Health Benefits in DHRM:

- Administers statewide reimbursement account programs,
- Operates the automated Benefits Eligibility System (BES), which serves as the official flexible reimbursement account record of the Commonwealth.
- Performs certain TPA disbursement reconciliation activities.

### Agency Benefits Administration

Agency benefits administrators are responsible for processing new enrollments and enrollment changes, validating employee eligibility, and maintaining BES information for agency employees. When notified of new hires or qualifying status changes, benefits administrators must advise payroll administrators immediately to ensure that correct payroll deductions are taken.

Detailed administrative guidelines governing flexible reimbursement accounts and BES are available from DHRM.

### Central Payroll Administration

State Payroll Operations in the Department of Accounts:

- Runs CIPPS, in which payroll deductions for reimbursement accounts are processed.
- Performs certain accounting and reconciliation activities supporting the Flexible Benefits program, and
- Provides payroll deduction information to the third party administrator and DHRM.

### Agency Payroll and Fiscal Administration

Agency payroll officers establish CIPPS payroll deductions for employees' reimbursement accounts based on the information provided on BES turnaround documents. The amount reflected on the BES turnaround document is an annual amount. The pay period amount must be computed by dividing the annual amount by the number of times the employee will be paid that calendar year.

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Deduction Changes

### Mid-Year FRA Deduction Changes

The program must follow all rules and regulations associated with IRS Code Section 125. According to IRS Code, once an employee makes an enrollment election the amount or the benefits cannot be changed during the course of the plan year unless a qualifying event, as defined by the IRS, has occurred.

Changes to payroll deduction amounts **are not discretionary**. Plan deductions as indicated on pre-tax enrollment forms must be taken unless other deductions take priority (e.g. healthcare, garnishment, and child support) or there are not sufficient funds from which to take a deduction.

### Family Status Change

According to IRS regulations governing Section 125 Cafeteria Plans, when an employee experiences a change in family status, a change can be made to their pre-tax salary reduction election form and processed in CIPPS.

Determination of family status changes must be made by agency Benefits Administration in accordance with DHRM policy and IRS regulations. Questions should be referred to the Office of Health Benefits in DHRM. Qualifying events which may allow a Family Status Change include but are not limited to:

- marriage or divorce
- spouse or dependent's death
- dependent's birth or adoption
- spouse begins or ends employment
- spouse or employee change from full-time to part-time employment or vice versa
- spouse or employee take an unpaid leave of absence

The proposed change must be consistent with the type of family status change experienced. The timeframe for notification is within thirty-one (31) days of the qualifying event. After 31 days, DHRM must approve requested changes before they are made in BES.

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Deduction Refund Policy

<b>Administrative Error</b>	Generally, refunds to employees of deductions for flexible reimbursement accounts are not allowed unless the deduction was withheld due to administrative error. The Office of Health Benefits in DHRM must approve all refunds before they are processed through payroll.
<b>Tax Consequences of Flexible Reimbursement</b>	State employees enjoy the tax savings of the pre-tax deduction option authorized by section 125 of the Internal Revenue Code. Under IRS rules, the deduction actually constitutes a salary reduction. Consequently, when an employee participating in a reimbursement account receives a refund in a calendar year subsequent to the year the deduction was made, a corrected W-2 (Form W2-C) and a 941C may be required.
<b>Deduction Refund Guidelines</b>	When deductions are withheld in error, the CIPPS deduction refund process can be used to refund the employee deduction. The refund must be processed along with the employee's regular payment. Process the refund on HTODA, "Employee Deduction Refund/Adjustment." Reference CAPP Topic 50600, <i>Tax and Deduction Overrides</i> , for instructions.
<b>Special Considerations</b>	Special care should be taken when processing pre-tax deduction refunds. The agency may need to collect any appropriate taxes due directly from the employee when Reimbursement Account deduction refunds are processed for employees who are no longer receiving regular pay. Upon receipt of the delinquent taxes, the employee's masterfile will have to be updated and taxes deposited. Refer to CAAP Topic Nos. 50605, <i>Tax and Deduction Adjustments</i> , and 20319, <i>Electronic Federal Tax Payments System (EFTPS)</i> , for procedures.

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Leave Without Pay (LWOP)

### Employee Payment

Employees on leaves of absence during any plan year may continue contributing to their reimbursement account(s) by paying the premiums on an **after-tax basis**. Agencies must deposit the funds to the reimbursement accounts. This can be done in one of two ways.

- Depositing the funds directly to the reimbursement accounts using a Deposit Certificate (DC).
- Transfer the funds using an Interagency Transfer Invoice (IAT), where the employee's check has been deposited to an agency's cash account.

### Deposit Certificate (DC) Method

Agencies can deposit (DC) the funds received from the employee directly to the reimbursement accounts using the following transaction coding:

To...	Trans Code	Agency Code	Fund	GLA
Credit GLA 567 – Dependent Care	002	997	0700	567
Credit GLA 568 – Medical Reimbursement				568

### Interagency Transfer Invoice (IAT) Method

If the employee's check has been deposited (DC) to the agency's cash account, then the agency must complete an IAT to distribute the money to the correct reimbursement suspense account. One line of coding will be agency-specific to record the disbursement from the cash account. The other transaction line used on the IAT will vary depending on the reimbursement account affected. The following transaction codes have been established for this purpose.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b> 50435
Function No. 50000—Payroll Accounting	<b>TOPIC</b> FLEXIBLE REIMBURSEMENT
Section No. 50400—Deductions	<b>DATE</b> October 2004

## Leave Without Pay (LWOP), Continued

To...	Trans Code	Agency Code	Fund	GLA
Credit GLA 567 – Dependent Care	225	997	0700	567
Credit GLA 568 – Medical Reimbursement	243			568

Mail or fax a copy of the DC or IAT to:  
 Department of Accounts FAX # (804) 225-3499  
 Benefits Accounting Unit  
 P. O. Box 1971  
 Richmond VA 23218-1971

## CIPPS Data Entry

### CIPPS Deduction Numbers

CIPPS deduction numbers, names and general ledger account numbers assigned to the reimbursement accounts follow:

CIPPS Deduction #	Name	General Ledger Account
021	Dependent Care	567
022	Medical Reimbursement	568

*Continued on next page*



Volume No. 1 - Policies & Procedures	<b>TOPIC NO. 50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE October 2004</b>

## CIPPS Data Entry, Continued

### H0ZDC

Access the Employee Deductions screen (H0ZDC) as instructed in CAPP Topic No. 50110, *CIPPS Navigation*.

Sna - EXTRA! Personal Client

File Edit View Tools Session Options Help

> GU 230,11111111200,026 ON H0ZDC

-----EMPLOYEE DEDUCTIONS-----

COMPANY--> 00230 EMPLOYEE NUMBER--> 11111111200  
NAME--> BARBARA BAKER

NO	NAME	CALC	GN	FR	PRTY	AMT/PCT	START DATE	END DATE	GOAL	UTILITY	DED	MTD	DED YTD
21	DEP CARE	85	1	09	000	50.00	00/00/0000	00/00/0000	.00	000000000022000100	.00		.00
22	MED REIM	85	1	09	000	100.00	00/00/0000	00/00/0000	1000.00	000000000022000100	.00		.00
24	PRM CONV	85	1	09	000	10.50	00/00/0000	00/00/0000	.00	000000000022000100	.00		.00
26	AGY HLTH	96	2	09	000	137.00	00/00/0000	00/00/0000	.00	000000000000000000	.00		.00

09/09/04 15:43:49 1 M3LL CIDL

NUM 11/02

SNA Server: Connected T1

<b>NO</b>	Enter applicable deduction number; 021 or 022
<b>NAME</b>	These fields are displayed after entering the deduction number.
<b>AMT/PCT</b>	Enter the deduction amount to be withheld (2 decimal places) each pay period.
<b>GOAL</b>	Enter the semi-yearly goal amount for each deduction.
<b>UTILITY</b>	<i>No data entry is required. The field is automatically populated with the appropriate setup '000000000022000100' when establishing pre-tax deductions. The utility field is zero filled for post tax deductions.</i>
<b>CALC GN</b>	Do not use.

*Continued on next page*

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b> 50435
Function No. 50000—Payroll Accounting	<b>TOPIC</b> FLEXIBLE REIMBURSEMENT
Section No. 50400—Deductions	<b>DATE</b> October 2004

## CIPPS Data Entry, Continued

H0ZDC (continued)

**FR**

Enter the deduction frequency:

For Deduction Number...	Enter...	Indicating the deduction will be taken...
021 or 022	09	Each payday.

**PRTY**

Do not enter information.

**START DATE**  
(OPTIONAL)

Enter the beginning date for the deduction. Enter as MM/DD/YYYY. The deduction will begin during the first payroll period when the date is less than the CTL period end date.

**END DATE**  
(OPTIONAL)

Enter the cut-off date for this deduction. Enter as MM/DD/YYYY. The deduction will end during the payroll period when the date is less than the CTL period begin date.

**DED MTD**  
**DED YTD**

Do not enter. Automatically updates each time the deduction is taken.

## Internal Control

**Internal Control**

Agencies must ensure there is proper documentation (e.g. BES turnaround document) prior to initiating any change to an employee's reimbursement account and that maximum deferral amounts are not exceeded.

## Records Retention

**Time Period**

Retain all source documents three years or until audited, whichever is later.

Volume No. 1 - Policies & Procedures	<b>TOPIC NO.</b>	<b>50435</b>
Function No. 50000—Payroll Accounting	<b>TOPIC</b>	<b>FLEXIBLE REIMBURSEMENT</b>
Section No. 50400—Deductions	<b>DATE</b>	October 2004

## Contacts

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**DOA Contacts**    Director, State Payroll Operations  
Voice: (804) 225-2245  
E-mail: [Payroll@virginia.gov](mailto:Payroll@virginia.gov)

Payroll Business Analyst/Trainer  
Voice: (804) 225-3120 or (804) 225-3079  
E-mail: [Payroll@virginia.gov](mailto:Payroll@virginia.gov)

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## Subject Cross References

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**References**    CAPP Topic No. 20319, *Electronic Federal Tax Payments System (EFTPS)*  
CAPP Topic No. 50110, *CIPPS Navigation*  
CAPP Topic No. 50605, *Tax and Deduction Adjustments*

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